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 **Why the push for companies to do the right thing is good for Australian share market investors**



# Why the push for companies to do the right thing is good for Australian share market investors

**As tensions between Australia's largest companies, their customers, and the federal government flare, companies such as Woolworths, AMP, and Qantas are placing a higher priority on measuring their community reputation. We discuss why a company's reputation is important to investors and examine the implications for your retirement savings.**

## Reputation is fundamental to share market performance

Across the Australian community, there's a growing expectation that businesses should have a positive impact on the societies they're part of. Simply put, do the right thing – and be seen doing the right thing.

A good reputation builds slowly over time. When a company's reputation is healthy, it can attract the customers, workers, suppliers, and financiers it needs to operate. This in turn provides fertile ground for the company to grow, earn income, and pay dividends to shareholders.

In contrast, a company with a bad reputation may face boycotts, find it hard to recruit staff and be on the receiving end of unwelcome government and media scrutiny.

When the right incentives are in place, market forces can encourage business executives to act with integrity, actively engage with stakeholders, listen and reflect on concerns raised.

## Companies experience community wrath

An example of how rapidly a bad reputation can destroy shareholder value was when the price of AMP shares dropped between March and October 2018 from a high of \$5.47 to \$2.31. That's a remarkable fall of over 50% in the space of six months.

This was precipitated by the fallout from AMP being found to have misled Australia's corporate regulator – the Australian Securities and Investments Commission – over its involvement with an independent report and fees-for-no-service following the 2018 Financial Services Royal Commission.<sup>1</sup>

More recently, in April 2024, executives from Woolworths and Coles were called to a Senate hearing to address rising community anger about supermarket prices and company profits in the face of cost-of-living pressures. At the hearing, Woolworths departing chief executive, Brad Banducci was warned that he could be held in contempt of the Senate and face potential jail time after repeatedly refusing to answer a question about Woolworth's profitability.<sup>2</sup>

Qantas has experienced similar hits to its formerly first-rate reputation, becoming the most complained about company to the Australian Competition and Consumer Commission. Qantas faced a class action from angry customers who were unable to get their money or points back after flights were cancelled due to COVID-19.<sup>3</sup>

Then, at a Senate select committee hearing in August 2023 into the cost-of-living, Qantas chief executive Alan Joyce evaded questions about high fares.<sup>4</sup>

## Reputation set to become a higher priority

The takeaway from these high-profile cases is that they're compelling a growing number of companies to realise they must close the gap between community expectations and corporate behaviour.

Boards are doing this by including reputation metrics in their executive incentive schemes. For Woolworths, vesting from 2024, a reputation metric now accounts for 20% of executives' long-term bonuses – replacing targets measuring sales per square metre.<sup>5</sup>

Other companies that have also introduced reputational metrics into executive bonus plans include Qantas, as well as the Commonwealth Bank and AMP.<sup>6</sup>

AMP says that including reputation as a metric – accounting for 30% of executive long-term bonus plans – helps it meet the requirements of a new standard imposed by the Australian Prudential Regulation Authority (APRA).<sup>7</sup>

In CPS 511, APRA-regulated entities are required to incentivise executives to manage non-financial risks and foster sustainable performance.<sup>8</sup>

When the behaviour of companies is held to account, companies are forced to take responsibility for their actions and more carefully manage their risks. This in turn helps strengthen the value of companies, along with your share investments in them.



## Talk to us

If you'd like to discuss the any of the companies that make up your investment portfolio, please talk to us.

1 ABC News, 'Blood in the streets' as AMP shares plummet to record low, 26 October 2018, accessed 2 May 2024.

2 SMH, Woolworths chief Brad Banducci threatened with jail time at Senate supermarket inquiry, 16 April, 2024, accessed 2 May 2024

3 AFR, Qantas sued over 'misleading' flight credits, refunds, 21 August 2023, accessed 2 May 2024

4 AFR, Labor aims to 'protect' Qantas profit, Joyce clashes with senators, 28 August 2024, accessed 2 May 2024

5 AFR, A hot tip for CEOs – reputation counts for everything, 21 April 2024, accessed 2 May 2024

6 Ibid

7 Ibid

8 APRA, Prudential Standard CPS 511, August 2021, accessed 2 May 2024

# The numbers

Gross domestic product increased  
**0.1%**  
for the March 2024 quarter.<sup>9</sup>

The unemployment rate is  
**4.1%**  
at April 2024.<sup>10</sup>

Consumer price index annual change is  
**3.6%**  
at the March 2024 quarter.<sup>11</sup>

**130,000**  
people retired in 2022  
with an average age of  
**64.8** years.<sup>12</sup>

The Wage Price Index (WPI) rose  
**0.8%**  
in the March 2024 quarter.<sup>13</sup>

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<sup>9</sup> Australian Bureau of Statistics

<sup>10</sup> Australian Bureau of Statistics

<sup>11</sup> Australian Bureau of Statistics

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<sup>13</sup> Australian Bureau of Statistics